Final Report of the

Cradle to College Commission:

Investing in the Future of our Children and our Communities

October 9, 2006

Presented to the Kentucky General Assembly by

Cradle to College Commission Co-Chairs

Secretary of State Trey Grayson | State Treasurer Jonathan Miller

I. EXECUTIVE SUMMARY

Until recently, the opportunity to earn a high-school diploma was all most Kentuckians needed to secure a good factory job, buy a home, and raise their children in prosperity. Today, however, a high-school degree is not enough for most Kentuckians. Without higher education (college, vocational or technical school) it has become increasingly difficult to maintain a comfortable standard of living. Those Kentuckians without higher education will earn far less money than their peers; studies show that on average, a higher education degree could make a difference of nearly one million dollars over the course of a lifetime.

Furthermore, Kentucky's economic success is directly related to the higher education attainment of its children. The information-based industries of the new economy will locate in communities where a highly educated workforce is available to handle the critical responsibilities.

We must ensure that more Kentucky children have the opportunity to graduate from college or technical school to acquire the skills needed for our modern economy. But here the challenge is also great. Too few young Kentucky children are entering college, and even fewer are graduating. Clearly, the most influential factor is economic. As the need for higher education has increased, its affordability has become a much more acute problem. Tuition at state colleges and universities has skyrocketed in recent years, far outpacing inflation and average income growth, as state policymakers have reduced their investments in higher education due to tighter budget circumstances and competing policy priorities. State and federal financial aid programs have also fallen far short of the escalating need for their resources.

Fundamentally, Kentucky's student financial aid system needs a complete review. We have to find a way to ensure that every child in the state, no matter family background, circumstance, or income, can have affordable access to higher education.

The need to create such educational opportunities was the motivation behind Secretary of State Trey Grayson's and State Treasurer Jonathan Miller's formation of the Cradle to College Commission. Under the Cradle to College plan, every child born in the state is provided a state-sponsored college savings account on the day of his or her birth. Ideally, the account is funded so that families can afford at least a community or technical college education. Parents and grandparents can then supplement these funds by making monthly or lump-sum payments to guarantee that tuition money will later be available. Private employers can also make designated contributions to young scholars who promise to develop the skills necessary to later work in a particular twenty-first century industry.

Even so, it is necessary that responsibility come along with such opportunity. As a result, every high school senior who uses his or her Cradle to College account to attend college will provide a year of full-time community or military service in Kentucky. Through this work, these young people will compensate for the money the state has provided for their higher education. But more importantly, the community service experience will give these young people a greater sense of civic responsibility.

Cradle to College can easily be adjusted in other ways to bring long-term benefits to the state or to the country. For example, to plug the "brain drain" that robs smaller rural states of their best and brightest young workers (seeking to earn more money at jobs in the big cities), we can provide incentives for graduates who stay in state to pursue their careers. Further economic incentives can be developed to benefit those college graduates who pursue lower-paying, but socially beneficial professions such as teaching, law enforcement, social work, and military service.

This type of initiative offers a winning scenario for Kentucky. The college savings component provides the state's children and their parents a new opportunity for affordable higher education and the better job prospects it presents, and has the potential to change young people's aspirations for the future. The state also benefits from the fact that a better educated workforce will attract more tax-paying businesses and industries. Youth participation in service projects benefits communities by filling gaps left by scarce public resources and instilling a greater sense of civic engagement into the next generation of leaders.

Of course with Cradle to College, there is a public price tag. Within the report however, the Commission does offer several financing options that can provide the General Assembly with flexibility to implement such a program within the context of competing policy priorities.

Even so, the Commission strongly recommends that the General Assembly examine the model to place Kentucky on the forefront of higher education affordability, as well as to better prepare for the future of our children and our Commonwealth.

II. CRADLE TO COLLEGE COMMISSION AND ITS MEMBERS

On June 16, 2004, State Treasurer Jonathan Miller and Secretary of State Trey Grayson came together in the Capitol Rotunda to introduce the "Cradle to College" Commission.

The men and women appointed by Secretary Grayson and Treasurer Miller represented a broad spectrum of experts in the areas of education, finance, and service. They spent more than a year studying, discussing, and refining the proposal for public presentation in the future. They were tasked with reviewing higher education affordability, including the rising cost of tuition in Kentucky and addressing, among other things, the following questions:

- How much funding is necessary to implement the program?
- How do we structure legislation to provide for needed funds?
- What innovative financial devices are available?
- If public funds are inadequate, how do we identify and access private sources of funding?
- If funds are insufficient to help every child, how do we structure a means-tested funding system?
- How do we address the financial aid needs of the 1-17 year-olds who would not benefit from this initiative?
- How do we structure the loan repayments and payroll deductions for college graduates?
- What kind and degree of community service would be required of the participants?

- How do we help students identify worthy community service activities?
- How do we structure the financial incentives and loan repayments to encourage students to make a career in Kentucky?
- How do we reward graduates who choose lower-paid professions that add value to their communities?
- How do we monitor community service and career choices?

When the hearings concluded, the Commission analyzed the data that had been collected and helped prepare this final report for the General Assembly.

Commission members included:

Treasurer Jonathan Miller, Co-Chair
Kentucky State Treasurer

Secretary of State Trey Grayson, Co-Chair
Kentucky Secretary of State

Dr. King Alexander
Former President, Murray State University

Dr. Dianne Bazell
Assistant Vice President, Academic Affairs, Council on Postsecondary Education

Ms. Rachel Belin
Prichard Committee for Academic Excellence

Ms. Eileen Cackowski
The Kentucky Commission on Community Volunteerism and Service

Mr. Mike Childress
Executive Director, Kentucky Long-Term Policy Research Center

Mr. John E. Chowning
Vice President for Church and External Relations, Campbellsville University

Dr. Gary Cox
President, Association of Independent Kentucky Colleges & Universities

Mr. Raoul Cunningham
State Executive Director, National Association for the Advancement of Colored People

Mr. Chris Derry
President, Bluegrass Institute for Public Policy Solutions

Secretary Virginia Fox
Kentucky Secretary of Education

Dr. Merl Hackbart
Professor of Economics, University of Kentucky

Dr. Nancy Jo Kemper
Executive Director, Kentucky Council of Churches

Dr. Thomas Layzell
President, Council on Postsecondary Education

Ms. Kimberly Maffet
Associate Vice President, Workforce Development, Norton Healthcare

Dr. Joe McCormick
Former Executive Director, Kentucky Higher Education Assistance Authority

Ms. Debra Miller
Executive Director, Kentucky Youth Advocates

Mr. P.G. Peeples
President, Lexington-Fayette County Urban League

Mr. Robert Sexton
President, Prichard Committee for Academic Excellence

Dr. Mary Evans Sias
President, Kentucky State University

Mr. Mac Wall
Executive Director, Kentucky Educational Television

Ms. Rachel Watts
Former Student Government President, University of Kentucky

Administrative Order 04-01, which created the commission, read as follows:

WHEREAS; The State Treasurer serves as an ex officio Board Member of the Kentucky Higher Education Assistance Authority and the Kentucky Lottery Corporation; and

WHEREAS; Pursuant to KRS Chapter 164A, the State Treasurer is required by the General Assembly to promote college affordability and programs to the public concerning personal savings, including Kentucky's Affordable Prepaid Tuition; and

WHEREAS; Pursuant to KRS Chapter 91, the Secretary of State is required by the General Assembly to promote programs that encourage the civic involvement of the youth of our Commonwealth; and

WHEREAS; The cost of college tuition is rising at a rate faster than inflation, and will continue to rise at historically high rates over the short term as funding is decreased; and

WHEREAS; The current funding levels for the state's financial aid programs have been flat, and are expected to decline as Lottery proceeds decrease due to new competition from Tennessee; and

WHEREAS; Many Kentucky families cite a lack of affordability as the leading obstacle to their children pursuing higher education; and

WHEREAS; Every Kentucky child who works hard in school and serves his/her community should have an opportunity to pursue higher education; and

WHEREAS; Kentucky has experienced a "brain drain" with some of Kentucky's best and brightest students leaving the state to pursue educational and career opportunities elsewhere; and

WHEREAS; Kentucky's priority is to provide affordable higher education and rewarding career opportunities for the best and brightest in the Commonwealth,

NOW, THEREFORE, I, Jonathan Miller, Treasurer of the Commonwealth of Kentucky, by virtue of the authority vested in me by KRS 12.110, do hereby order and direct the following:

I. There is hereby created and established the Commission on the Cradle to College Initiative, with the intent of providing opportunities for Kentucky students to attend college. The Commission shall report directly to the Treasurer and the Secretary of State. The Commission shall be attached to the Treasurer's office for administrative and staff purposes.

II. The scope of the Commission shall be as follows:

a. To answer the open questions regarding financing and community involvement;

b. Identify, develop, and refine the goals and objectives of the Cradle to College initiative;

c. Identify and establish incentives to encourage young adults to stay in Kentucky and to start careers that benefit the community; and

d. Develop programs, where needed, which foster community involvement and volunteerism.

e. To prepare a final report, and take steps necessary to effectuate the Commission's recommendations.

III. The members of the Commission shall be appointed by and at the discretion of the Treasurer and the Secretary of State. The Treasurer and Secretary of State may also request additional technical assistance and testimony to further the work of the Commission, through advisory hearings or other means.

IV. The Commission shall meet at the call of the Chairs and shall continue to meet as necessary in order to carry out the mandates of this order.

V. The Commission shall prepare reports on its findings and recommendations.

VI. The State Treasurer and Secretary of State may, pursuant to KRS 12.090, request assistance from other state agencies.

VII. The Commission shall conclude its work on September 1, 2007 unless this order is extended.

VIII. The Treasurer's Office and Secretary of State shall take all actions necessary to effectuate the provisions of this order, including, but not limited to, a preparation of a special report to the Governor on the Commission's activities, pursuant to KRS 12:110.

III. COMMISSION HEARINGS

The Cradle to College Commission held six public hearings. They were as follows:

1. The first hearing of the Cradle to College Commission was held on October 11, 2004 in the Capitol Annex in Frankfort, KY. The meeting involved an introduction of the subject to the commissioners, and allowed each commissioner to suggest further areas of exploration.
2. The second hearing of the Cradle to College Commission was held on January 27, 2005 in the Student Center of the University of Kentucky in Lexington, KY. The subject was college affordability, and the commission received the testimony of several college students from across the Commonwealth.
3. The third hearing of the Cradle to College Commission was held on July 19, 2005 in the Capitol Annex in Frankfort, KY. The subject of the hearing was an examination of asset-building programs being initiated across the country, and witnesses included Jennifer Brooks and Carl Rist of CFED (Corporation for Enterprise Development) Initiative; Nick Vesper, Director of Policy Analysis and Research for the State Student Assistance Commission of Indiana; and Larry Isaak, President of the Midwestern Higher Educational Compact.
4. The fourth hearing of the Cradle to College Commission was held on November 30, 2005 in the Capitol Annex in Frankfort, KY. The subject of the hearing was research and analysis that has been performed by the Council on Postsecondary Education (CPE) and the Kentucky Higher Education Assistance Authority (KHEAA) on college affordability in Kentucky and existing student financial aid programs. The principal witnesses were Dr. Dianne Bazell, Vice President of

CPE and Dr. Joe McCormick, Executive Director of KHEAA. Additional testimony on private involvement in higher education financial was given by Kim Maffet of Norton Health Care.

5. The fifth hearing of the Cradle to College Commission was held on February 22, 2006 in the Capitol Annex in Frankfort, KY. The principal subject was community volunteerism and service, with testimony from Eileen Cackowski, Director of the Kentucky Commission on Community Volunteerism and Service.
6. The sixth hearing of the Cradle to College Commission was held on May 18, 2006 in the Capitol Annex in Frankfort, KY. The hearing served as a wrap-up of the testimony and research to date, and featured the testimony of Bob Friedman, General Counsel of CFED (Corporation for Enterprise Development).

IV. COMMISSION FINDINGS

A. Background: The Need for Affordable Higher Education in Kentucky

Until recently, the opportunity to earn a high-school diploma was all most Kentuckians needed to ensure a comfortable standard of living. Unfortunately, this is not adequate for most Kentuckians today. The factory jobs of the post-war era are disappearing due to a sharp decline in the manufacturing sector and the emergence of the new information-based economy. Since the 1970s, the American manufacturing sector has lost over six million jobs (more than three million have been lost since 1998 alone) due to new technologies and cheaper overseas competition. Furthermore, the market value of those left unemployed has declined precipitously, forcing millions of formerly middle class, blue-collar American workers closer to the poverty line.

This trend is expected to continue and accelerate. With rapid advances in technology linking the globe digitally and the impending retirement of the disproportionately large Baby Boom generation, industry employment projections predict that the fastest job growth will occur in the high-tech and health-care sectors, both of which usually require some higher education. High-school graduates (and dropouts) will be forced to fill the remaining service-related jobs offered by low-wage, low-benefits employers, and these Kentuckians without higher education will earn far less money than their peers.

Young people who fail to earn a higher education degree are not the only projected losers in the new economy. Communities with fewer college graduates have a much harder time competing economically with neighboring areas in which a greater percentage of the workforce is more highly educated. Between 1929 and 1998, the per capita output of the national economy grew by 240 percent, and the most significant growth was specifically located in regions where there had been an increasingly educated workforce. The data is clear; a state's economic success is directly related to the higher education attainment of its residents. The information-based industries of the new economy will locate in communities where a highly educated workforce is put in place to handle the critical responsibilities.

College funding is crucial for economic development in states. A framework should be made that outlines the state's goals and expectations regarding an education program. One of the primary goals should be the creation of an educated workforce for the 21st century. In this regard, adult learners cannot be ignored and need funds too. The Midwest now lags in its number of adult students in comparison with the rest of the nation. The commission may also want to investigate ways to increase access for adult learners in addition to traditional students. The states that do this earlier will likely have an edge on other states.

Kentucky's Council on Postsecondary Education (CPE) has asked a key question: by 2020 what does Kentucky need to do to reach the national level of baccalaureate-degree attainment in the population? The projected national level is 36 percent, while only 27 percent is projected for Kentucky. That means we need more than 200,000 baccalaureate degrees to reach the projected national level.

B. The Challenge: Higher Educational Affordability

The answer to these daunting forecasts is simple; we need to ensure that more children have the opportunity to graduate from college or technical school to acquire the skills needed for our modern economy. As it now stands, too few students are entering college, and even fewer are graduating. If current trends hold, for every 100 ninth graders in the United States, only 40 will enter college, and only 18 will graduate. Kentucky statistics are even more unsettling and reveal reason enough for change. Out of every 100 Kentucky ninth graders today, 65 will graduate from high school. Of that 65, 39 will enter college. Of that 39, 26 will still be enrolled their sophomore year. Of those original 100 ninth-graders, only 15 will achieve a four-year college degree within six years (or two-year degree within three years).

While there are a wide variety of reasons why so many American children are denied the opportunity to a college degree, clearly the most influential factor is economic. As the need for higher education increases, its affordability has become a much more acute problem. Not only are many families unable to send their children to college, but a large and fast-growing number of college students are forced to drop out before graduation. College dropouts are becoming one of the largest and fastest-growing groups of young adults in America. Almost one in three Americans in their mid-20s falls into this group, up from 20 percent in the late 1960s, and the leading cause of this is financial. Only 41 percent of low-income students entering a four-year college managed to graduate within five years, but 66 percent of high-income students did according to a Department of Education report. Credit-card debt is a growing culprit, particularly when students or their parents use credit cards to pay tuition and are unable to keep up with the expensive interest payments.

Furthermore, those students who are able to acquire financial aid often do so in the form of student loans; almost half of the country's college students depend on federal loans. By the time their education is complete, many students have built enormous personal debt, which poses severe economic hardships and forces some students to choose professions because of higher salaries, instead of personal fulfillment or social benefits. To make matters worse, in 2006 Congress made the largest cut to the federal student loan program in history, resulting in significantly higher interest rates and greater debt for participating students.

C. <u>Existing Financial Aid Programs in Kentucky</u>

KEES, the Kentucky Education Excellence Scholarships, was started by the General Assembly in 1998 and modeled on Georgia's HOPE Scholarships, with some distinct differences. Like HOPE, KEES was geared toward keeping Kentucky's best and brightest students in state. However, there was also a focus on inducing more first generation college-goers.

KEES is a merit scholarship but eligibility requirements were designed a little lower than most and remain somewhat controversial. They are lower because of a great concern about access. There was also a desire with the implementation of KEES to inspire students to do better in high school (to receive KEES money, a student must have a 2.5 GPA in high school and maintain a 2.5 in college).

The current, chief recommendation of several groups, including the Prichard Committee task force, is to revise the KEES curriculum to better meet postsecondary expectations. There are also a number of other key policy issues, in addition to the curriculum, that are being reviewed individually. Some of the policy issues being discussed:

1. Revising KEES curriculum, based on evidence that nearly 40% of KEES recipients lose their scholarships by their sophomore year of college
2. Potentially revising Kentucky's minimum high school graduation requirements to meet postsecondary and skilled workplace expectations
3. Raising KEES ACT supplementary award threshold of 15 (composite)
4. Standardizing the grading scale across different school districts for KEES awards calculation
5. Granting KEES award credit for Algebra I or higher mathematics courses that qualify for high school credit when taken in middle school (though awarded in high school)
6. Giving Jeff Green Scholars (students with a 4.0 GPA all four years of high school and at least a 28 composite score on the ACT) an additional KEES award of $1,500
7. Allocating extra weight for dual credit courses taken in the pre-college curriculum (including the four electives), just as AP and IB courses are given extra weight
8. Allowing Kentuckians who have completed undergraduate study out of state to use their allotted KEES funds for graduate school in KY
9. Changing the five course per year requirement for KEES eligibility to a five credits per year requirement
10. Asking what policy principles in a deficit situation (anticipated FY '08) should guide the allocation of KEES and other financial aid funds

11. Resetting as a whole the balance of merit and need-based aid if, as a result of KEES funds being awarded more on the basis of merit, savings are accrued
12. Addressing the needs of adult, part-time students
13. Requiring all college applicants to fill out the FAFSA forms

Nobody has done a formal study to find out if the KEES program is doing what is was enacted to do, that is, provide incentives for students to do better in high school and eventually to elect to go to college, most desirably in Kentucky. Enrollment at four-year and two-year colleges in Kentucky has gone up since the enactment of KEES, as have the number of degrees obtained by state students. It is not clear however how much of that can be attributed to the positive impact of KEES.

Currently there are five clear national trends in higher education, which are also true in Kentucky:

- increases in tuition have made college less affordable
- federal and state funding has not kept pace with increases in tuition
- more families at all income levels are borrowing more than ever before to pay for college
- increases in tuition have come at times of greatest economic hardship
- state financial support for public higher education has not increased at a rate to keep up with the increases in tuition; families have to rely very heavily on loans to pay the increases in tuition.

To begin with, in 1998 the legislature set the maximum KEES award based on the price of tuition at that time, which is now outdated and effectively halves the purchasing power of KEES awards. Because of such trends, many more students are taking out loans to finance their education. A study by the Kentucky Higher Education Assistance Authority revealed that students graduate with an average debt of $13,000, and financial aid in Kentucky is not keeping up with tuition inflation. Despite a growing mentality that there is nothing wrong with borrowing and that it's okay to graduate in debt, there are still many students who have to take off time from school to work in order to pay for education, but their planned semester or year off sometimes turns into a lifetime. (In other words, these students never return to school.) There are also concerns that tuition increases may result in less diversity in college student bodies.

A 1999 survey of high school seniors conducted by the Kentucky Long Term Policy Center revealed that the vast majority of the students surveyed intended to pursue higher education, yet there is still a striking lack of awareness of financial aid programs available. Worse yet, a recent national college affordability study gave Kentucky a "D" grade, which is the same level as 10 years ago.

The Commission collected data that precisely outlines the scope of the educational affordability challenge. Every year 54,000 children are born in Kentucky, with approximately 12,000 of them born to Kentucky families living below the poverty line. The cost of a two-year Kentucky community college education today is approximately $6000. Annually, the state spends approximately $146 million on financial aid programs.

The average amount borrowed by undergraduates in 2003 was $3018.00. The portion of annual income spent by low and middle income Kentucky families on tuition, room, and board at community colleges and public four-year colleges after financial aid received is approximately 33 percent. The percentage is 79 percent of annual income by these same families at four-year private colleges. The percentage of Kentuckians aged 25-65 with at least a bachelor's degree is 24 percent.

The perspective of using the lottery to fund education is positive and negative. On the one hand, the use of the lottery money for KEES has helped grow the funding quite impressively since 2000 (the year the General Assembly voted to fund KEES with lottery money). On the other hand, the revenue from the lottery will probably never match the actual demand for funds in KEES, the College Access Program, and Kentucky Tuition Grant Program with big deficits beginning to appear in 2008. (The College Access Program helps Kentucky's financially needy undergraduate students attend eligible public and private colleges and universities, proprietary schools, and technical colleges. The Kentucky Tuition Grant Program provides need-based grants to qualified Kentucky residents to attend the Commonwealth's independent colleges.)

D. Kentucky Student Testimony

The Commission was pleased to hear the testimony of several current Kentucky college students from a cross-section of Kentucky universities and community colleges. The range of perspectives presented by the students allowed the members to tackle the issue of education affordability from a variety of angles. While the panel asked differing questions of each of the student participants, a number of concerns and observations seemed to resonate throughout the hearing. Some of these recurring themes included:

- A positive response toward scholarship money in response for civic service
- Lack of financial and academic counseling
- Sacrificing insurance, books and other “extras” to keep education costs low
- KEES money and low tuition necessary to keep (top) students in Kentucky
- Students being overwhelmed by loans and the timetable for repaying them
- Impact of working on academics, extra-curricular involvement and community engagement
- Students postponing graduate education
- Middle class money trap

E. The Solution: Universal Children’s Savings Accounts

A new idea emerging in the United States and elsewhere across the globe involves the concept of universal children’s savings accounts, starting every child with a fully or partially funded college savings account on the day of his or her birth. The most comprehensive, mature model can be found in Great Britain. In 2003, under the leadership of Prime Minister Tony Blair, the British Parliament enacted the Child Trust Fund, which establishes a savings account for every child born in the country. The system is based on the principle of “progressive universalism,” under which every British child receives an endowment, while those in lower-income families receive a larger lump sum. The initial deposits range from £250 to £500 (approximately $360 to $720).

Additional contributions can be made by parents, relatives, or friends, to the tune of up to £1,200 a year, for a total of £22,000 by the time the child reaches 18 years of age. A limited number of investment options are available for these accounts, including money market, bond, and stock funds. When the fund matures, the savings will be released to the teenager free of income or capital-gains taxes and without any restrictions on how the cash is spent.

Politicians of both parties in the United States already have discussed adopting some version of the British model. As early as the 1990s, former U.S. Senator Bob Kerrey developed the concept of KidSave, the purpose of which was to create individual retirement savings accounts for American children. One version of his proposal permitted a child to borrow from his or her account temporarily in the form of a ten-year loan in order to pay for higher-education expenses. In another version, the Social Security Administration was required to open and endow an account for every newborn.

While KidSave never progressed past the discussion phase, the idea was reintroduced in another form in 2004. That year, Pennsylvania Republican Senator Rick Santorum and former New Jersey Democratic Senator (now Governor) Jon Corzine introduced the America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act, under which every child born in the United States would automatically receive a $500 deposit into a Kids Investment and Development Savings Account ("KIDS Account"). Children from lower-income households would receive a supplemental deposit at birth and would be eligible to receive dollar-for-dollar matching funds up to $500 per year for voluntary contributions to the account, not to exceed $1,000 per year. American children, in conjunction with their parents and financial educators at school, would participate in investment decisions and watch their money grow. Assuming modest but steady contributions, a typical child from a low-income family could accumulate about $20,000 by age 18, at which point money might be used to go to college, buy a home, or build up a nest-egg for retirement. The accountholder would begin at age 30 to pay back the $500 which was initially deposited at birth. The projected 10-year cost was put at $38 billion, with the expectation of diminishing expenses as participants paid back the initial investment amounts.

To date, the ASPIRE Act has remained bottled up in the legislative process. With the considerable taxpayer investment up-front, there is an absence of political will in lean budget times. However, pilot projects like Cradle to College are emerging on the local and state levels across the country that might ultimately provide federal policymakers with a model and a justification for developing a national child savings account program. In just one example, the Saving for Education, Entrepreneurship, and Downpayment (SEED) Policy, Practice and Research Initiative was formed specifically to provide funding for these local initiatives. SEED is a multi-year endeavor to develop, test, inform and promote matched savings accounts and financial education for children and youth. At twelve demonstration sites, SEED is testing the social, behavioral, and economic effects of establishing matched saving accounts for children and youth.

On June 1, 2005, in cooperation with several renowned national partners and advisors, CFED (founded as the Corporation for Economic Development) announced the selection of coalitions to work as state partners with SEED; the Cradle to College Commission was chosen to participate as one of those state partners. The Commission received several hours of testimony on SEED and its partners. SEED will be doing research and testing in various settings to determine the social, behavioral, and economic effects of the established savings accounts. Their goal is to set the stage for extending this policy on both federal and state levels. The accounts will be established at birth, grow through childhood, and can be used for higher education. SEED believes that success in even one state would help many children and create a model for the federal government.

There are a dozen SEED-sponsored child savings account initiatives across the country. Each program provides children with a savings account, funded with money from foundations and, sometimes, local businesses and governmental entities. Some use a state-sponsored 529 plan as the financial platform; others use the Individual Development Account (IDA) format that has been authorized by federal law to enable individuals to build assets (often with monetary matches from private or public sources) in a tax-preferred vehicle. Each asset-building initiative provides matching funds from a variety of sources that correspond to family savings and/or to the achievement of particular benchmarks. With so many different models, structures, and incentive systems, the SEED-sponsored initiatives truly serve as a laboratory of reform, offering federal policymakers proven experience for developing a similar program nationally in the near future. Among the programs emerging across the country are:

- The Boys & Girls Clubs of Delaware initiative, which involves 71 children in an asset-building program with economic incentives for parents and children to participate in financial education programs;
- A Cherokee nation project involving 75 tribal children in a college savings account program that requires that young participants maintain good

grades, learn about tribal history, complete career counseling, and participate in community service;

- Fundación Chana Goldstein y Samuel Levis, a community development program in Puerto Rico that provides economic incentives for good grades, financial planning, and extended family participation;
- People for People, a faith-based Philadelphia community economic development organization with an affiliated charter school and credit union, which involves 75 nine and ten year-olds, and provides financial incentives for student achievement, attendance, behavior, and participation; and
- The Jim Casey Youth Opportunities Initiative that provides an "opportunity passport" for foster children in 12 communities, that includes a funded debit account, matched savings account, and "door openers," who provide participants job and interviewing skills and help them with critical life skills, such as finding an apartment and affordable health-care insurance.

A different model comes from Indiana, where former Governor (now U.S. Senator) Evan Bayh created the 21st century scholars program for low-income families in 1990. Students enroll in the program in the seventh or eighth grade and sign a pledge that they will graduate from high school and then attend college within two years after high school. They also agree to not be involved with alcohol, drugs, or criminal activity. Today there are 16 support sites across the state and a staff that works with students from seventh grade through high school. Over 15,000 students get grants. In preparation for college, the students have workshops, preparation courses, and college days. A major portion of the program's students are guaranteed free tuition for four years (approximately $5,200-$7,100, depending on many factors) at any public institution. Students wishing to attend private colleges can receive up to $10,000 in aid, which doesn't cover all tuition, but is all the state can offer due to private colleges having higher tuition rates.

The Twenty-first Century Scholars Program has approximately 8,500 students in college now. Program costs are currently around $17 million for scholarships, with intervention portions around $4-5 million annually. 110,000 students have enrolled in the program since its inception. The program criteria (testing means) are the income guidelines for free or reduced lunches in seventh or eighth grade. 50% of those who sign up for the aid actually stick with the program through high school, and around 85% of those students who affirm the pledge in their senior year actually enroll in college within two years. It is roughly estimated that around 45-50% of the seventh and eighth grade students who are eligible for the program actually enroll.

Students do not have to maintain a specific performance level. They do have to graduate high school with a 2.0 to get into the colleges, but as long as they keep up with the school's requirements, they maintain eligibility academically for this program's benefits. Academic preparation is not required, but is recommended. Historically, low-income students have had extremely low numbers (10%) with regard to college matriculation. These rates have possibly doubled or tripled since the program was instituted. Twenty-first Century Scholars also have much higher retention rates than other students who receive aid.

Each year the program sends to colleges a mailing list of all high school participants so that the schools can start recruiting the students early. A number of colleges give additional scholarships to the students to cover room and board and other costs (mostly private institutions). There is also a mentorship program between the junior/senior scholars and freshman/sophomore scholars.

Almost all students are of traditional age. There have been attempts by the legislature to restrict tuition increases, but they have not been very successful. Indiana has a part-time student allowance of nearly $5 million yearly, which generally goes to non-traditional students. This creates a complicated situation because there is money set aside for schools to use for aid, but it has typically been used for recruiting out-of-state merit students, not for need-based scholarships.

Program coordinators have found that parental involvement is crucial to the program's success. They tried to supplant the parental involvement at first, but it was not effective. They instead have strongly recruited parents to help with the program. In some cases, they have paid parents modest salaries to in turn recruit other parents. Students and parents are also involved in workshops together.

F. A Relevant Current Example: Maine

Maine, a state with many similarities to Kentucky, offers a recent, relevant example Kentucky should study.

In 1999, Maine launched NextGen, the state's 529 savings plan that provides individuals with a structured method of saving for higher education. In 2002, the General

Assembly created the Matching Grant Program, an innovation within NextGen, specifically designed to help low-to-moderate income families save.

Like other 529 savings plans, NextGen provides individuals with a tax-advantaged way to save for higher education. Given trends in college tuition and financial aid, the accumulation of private savings for college is increasingly important for all families. Seven states, including Maine, offer similar 529 savings plans.

While any United States resident can open a NextGen account, the Matching Grant Program is designed for state-resident families who meet eligibility requirements, including a household adjusted gross income (AGI) threshold. Eligible families can receive two types of matching grants to supplement their NextGen savings: a $200 Initial Matching Grant (IMG) and an Annual Matching Grant (AMG) of varying amounts.

The IMG subsidizes $200 of the $250 initial deposit required to open an account, and has been available to accounts opened in 2002 or later. The AMG is available to any eligible account, regardless of when the account was opened. The maximum AMG was previously $100 per year, but was increased to $200 in 2005.

G. Private Support for Higher Education Affordability.

To understand what some Kentucky corporations are doing to promote higher educational affordability, the Commission received a presentation on Norton Healthcare's workforce development program. Norton currently has one of the lowest employment vacancy rates (2-3%) in the country. The program itself has saved the company $4.5 million a year and has graduated over 650 participants. Currently 575 are in the pipeline to graduate soon. Norton recruits in area high schools, universities, colleges, and adult education and ESL programs where students fill out the application and have an interview. ACT scores, grades, and interview skills are all factors of students' acceptance into the program. After they have been accepted, they sign an agreement to work for Norton. Participants are eligible for up to $24,000 over a 4-year period. They never pay the money back (unless they leave the program before fulfilling their commitments). For every $6,000 they receive, they have to agree to work for 1 year ($500 is awarded in exchange for 1 month of work). If for whatever reason, the student decides not to work for Norton, he or she has to pay the money back with 6% interest (or with no interest if it is paid in full right away). The debt is converted to a student loan, and students have five years to pay it off.

Norton structured the program so that it is enticing to the students. There are social events for the participants while they are in school as well as a mentoring program, which has encouraged retention. Out of 1200 students, there have been fewer than 100 defaults. This program is easy to replicate, and several other industries could benefit. The problem is convincing companies that it would be worth significant upfront investment.

H. Community Service and Civic Engagement

Many national studies demonstrate that young Americans are woefully ignorant about key concepts of our democracy. For example, a 1998 civics assessment conducted by the National Assessment of Educational Progress and a 1999 study by the International Education Association revealed that:

- While nearly three-quarters of all American fourth-graders knew that U.S. laws must be applied even-handedly, only 15 percent could name two government-provided services that are paid for by tax dollars;
- While four out of five eighth graders could identify Martin Luther King, Jr. as someone concerned about the injustice of segregation, only six percent could describe how a country benefits from a constitution;
- While 90 percent of high school seniors knew that Social Security was a matter of considerable concern to the elderly, less than 10 percent could list two ways that a democratic society benefits from the active participation of its citizenry;
- The conceptual foundation that American students have concerning democracy and citizenship is only average when compared with students from other countries, including those in new democracies.

When our children learn at an early age the nobility of public and community service, the necessity of voting for a strong community, and the greatness of our democracy, they will be more prone to seek the common good when they rise to leadership positions.

Studies by the National Assessment of Educational Progress and the International Education Association also revealed that comprehensive civics education positively affects civic knowledge, skills, and most importantly, engagement. More specifically:

- Students who have studied Congress, the Presidency or political systems have greater confidence in their ability to understand political issues;

- Students who studied American government were more likely to expect to write letters to a newspaper or a government official about political concerns as an adult or make a statement at a public meeting; and
- Students who studied the Constitution, Congress and political parties were more likely to read newspaper articles and watched national news on television.

Kentucky already has the infrastructure for a strong community service component. In 1994, the Kentucky Commission on Community Volunteering and Service (KCCVS) was established to promote Kentuckians working together to meet actual community needs in ways that foster personal, family, and community pride and an enduring ethic of volunteering and service. KCCVS supports national community service and provides leadership to coordinate volunteer activities throughout the state. The Commission is a statewide, bi-partisan group of up to 25 members, appointed by the Governor, having diverse service and/or volunteerism backgrounds. The KCCVS actively engages citizens in community service opportunities that enable volunteers, organizations, and businesses to effectively collaborate to address Kentucky's needs.

AmeriCorps has been one such successful community-involvement program in which service is exchanged for educational opportunities. With one year of service, participants receive a $10,900 living stipend and a college voucher equal to $4,725. They must complete 1700 hours of service, and they are eligible to serve up to two years. The average age of an AmeriCorps member in Kentucky is 40 years old, and they often see the program as a way to afford college. Service is provided directly, and participants get training and certification. Additionally, AmeriCorps offers supervision, support, and guidance. Agencies who receive Corps members pay $4,000 per member. KCCVS has brought in over $13 million to Kentucky in education vouchers, and about 85% of AmeriCorps members go on to college.

AmeriCorps members tutor in schools for reading and math, help senior citizens remain in their homes with dignity, educate for homeland security and disaster preparedness, help secure safe and affordable housing, develop youth leadership skills, and help Kentuckians leave welfare rolls.

RECOMMENDATIONS

The Cradle to College Commission respectfully submits the following recommendations to the Kentucky General Assembly:

A. Beginning in the year 2007, every child born in the state of Kentucky should be automatically enrolled in the Kentucky Education Savings Plan Trust (KESPT), one of Kentucky's two state-sponsored college savings plans, whose earnings are tax-free under Kentucky law and Section 529 of the Internal Revenue Code. The Kentucky Higher Education Assistance Authority (KHEAA), which currently administers KESPT, will be tasked with working with hospitals in Kentucky and on the Kentucky border to facilitate enrollment and notify parents. The General Assembly will provide the minimal funding to KHEAA to ensure that these goals are met.

B. As with typical 529 accounts, parents, grandparents and other loved ones can contribute funds to the children's accounts over their childhood. Pursuant to state and federal law, money from KESPT can be transferred tax-free at any time to Kentucky's other 529 plan, KAPT (Kentucky's Affordable Prepaid Tuition), or to any other state's 529 plan. Money in these plans can be used at any institution of higher education, anywhere in the country.

C. If financially practical, the Kentucky General Assembly should create a Cradle to College Matching Grant Program, modeled after Maine's Matching Grant Program, which is designed to help low-to-moderate income families save money. The program would be designed for state-resident families who meet eligibility requirements, including a household adjusted gross income (AGI) threshold.

Eligible families can receive two types of matching grants to supplement their NextGen savings: a $200 Initial Matching Grant (IMG) and an Annual Matching Grant (AMG) of $100-$200 a year.

D. If, for example, only children born in poverty were eligible, the maximum state outlay per year would be $2.4 million. This money could be obtained in a variety of ways: (1) excess lottery profits (in FY 07, for example, the Lottery projects returning $174 million to the state, $8.5 million more than projected by the state budget); (2) coal severance payments directed to the children in those participating counties; and (3) the General Fund.

E. Children who received IMGs and/or AMGs would be required to repay this money through a full-year of community service upon their high school graduation. The service would be accomplished through programs administered by the KCCVS and could be performed in one full year, or over four consecutive summers.

F. By 2021 (when the first group of children reach the ninth grade), KHEAA should establish a program through which private employers can contribute matching funds to these accounts to students who commit to work in a particular industry. Industries targeted by this program will include health care, engineering, science, math and technology.

G. By 2025 (when the first group of children reach college age), the General Assembly should fully fund the Cradle to College accounts for all Kentucky newborns, using money currently allocated for financial aid that is no longer needed because of the transitioning program outlined above.